

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA
A COMPONENT UNIT OF THE VERMILION PARISH
POLICE JURY

FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

**FINANCIAL STATEMENT
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012**

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**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013 AND 2012

Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, (the District's) discussion and analysis is intended to assist the reader in focusing on significant financial issues, provide an overview of the District's financial activity, identify changes in the District's financial position and it's ability to address the next and subsequent year challenges. It also identifies any material deviations from the financial plan and identifies individual fund issues or concerns. This is a requirement of the Government Accounting Standards board (GASB) formerly known as Statement Number 34 "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments" and presently seen throughout the GASB Codification Section 2100, and is intended to provide the financial results for the fiscal years ending December 31, 2013 and 2012.

The GASB Codification requires the presentation of two basic types of financial statements: District-wide and fund financial statements. However, due to the fact that the District consists of a single proprietary fund type, the District-wide and Fund financial statements are equivalent.

DISTRICT-WIDE FINANCIAL STATEMENTS

The District-wide statements provide a perspective of the District as a whole. These statements use the full accrual basis of accounting similar to private sector companies. There are three District-wide statements: the Statement of Net Position, the Statement of Revenues, Expenses , and Changes in Net Position, and the Statement of Cash Flows.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Summary of Net Position

	<u>2013</u>	<u>2012</u>
Assets		
Current Assets	\$ 562,804	\$ 862,440
Assets Limited as to Use	600,416	205,825
Capital Assets, net book value	7,349,240	7,216,192
Other Assets	<u>22,917</u>	<u>17,016</u>
Total Assets	<u><u>\$ 8,535,377</u></u>	<u><u>\$ 8,301,473</u></u>
Liabilities		
Current Liabilities	\$ 37,689	\$ 33,025
Current Liabilities with Assets Limited to Use	113,072	1,218,640
Long-term Liabilities	<u>4,951,675</u>	<u>3,632,098</u>
Total Liabilities	<u>5,102,436</u>	<u>4,883,763</u>
Net Position		
Invested in Capital Assets, net of related debt	2,326,411	2,391,580
Restricted (Expendable)	487,344	121,297
Unrestricted	<u>619,186</u>	<u>904,833</u>
Total Net Position	<u><u>3,432,941</u></u>	<u><u>3,417,710</u></u>
Total Liabilities and Net Position	<u><u>\$ 8,535,377</u></u>	<u><u>\$ 8,301,473</u></u>

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013 AND 2012

As indicated by the statement above, total net position at December 31, 2013, is \$3,432,941. Net position can be separated into three categories: invested in capital assets net of related debt, restricted net position, and unrestricted net position.

Invested in capital assets, net of related debt is combination of funds available for capital assets, plus capital assets at original cost less accumulated depreciation and related debt. The original cost of capital assets is \$9,113,931 which is an accumulation of capital assets year after year less any capital disposals. The accumulated depreciation is the accumulation of depreciation expense since acquisition of each capital asset. In accordance with Generally Accepted Accounting Principles (GAAP), depreciation expense is recorded on the original cost of the asset, less an estimated salvage value, and expensed over the estimated useful life of the asset. Total accumulated depreciation is \$1,753,931. Most capital asset acquisitions are financed through long-term debt. Primarily, long-term debt is repaid as the debt service comes due from water system revenues that have been set aside for the debt retirement. Total debt associated with capital assets is \$5,044,647.

Restricted net position consist of debt retirement funds, funds that are required to be set aside for contingencies, and customer security deposits. Restricted net position represent an amount equal to the assets limited as to use, less the related liabilities. The breakdown of these funds is as follows:

	<u>2013</u>	<u>2012</u>
Revenue Bond Sinking Fund	\$ (62,624)	\$ (36,254)
Waterworks Reserve Fund	105,523	53,605
Waterworks Contingency Fund	111,371	98,976
Customer Security Deposits	5,386	4,933
Construction Account	5	37
Short-lived Assets	<u>327,684</u>	<u>-</u>
Total	<u>\$ 487,345</u>	<u>\$ 121,297</u>

The remaining net position balance of \$619,186 is unrestricted. The unrestricted net position is an accumulation of current and prior years' operating results. This balance is directly affected each year by the District's operating results.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013 AND 2012

RESULTS OF OPERATIONS

	<u>2013</u>		<u>2012</u>	
	<u>Amount</u>	<u>% of Total</u>	<u>Amount</u>	<u>% of Total</u>
Program Revenue				
Customer Charges	<u>\$ 798,891</u>	<u>95.75%</u>	<u>\$ 763,155</u>	<u>84.04%</u>
Other General Revenues				
Interest Income	9,464	1.13%	15,501	1.71%
Grant Income	21,948	2.63%	-	0.00%
Intergovernmental Income	-	0.00%	108,900	11.99%
Gain on Sale of Equipment	3,800	0.46%	-	0.00%
Other Income	<u>242</u>	<u>0.03%</u>	<u>20,538</u>	<u>2.26%</u>
Total Other General Revenues	<u>35,454</u>	<u>4.25%</u>	<u>144,939</u>	<u>15.96%</u>
Total Revenues	<u>834,345</u>	<u>100.00%</u>	<u>908,094</u>	<u>100.00%</u>
Expenses				
Water Expenses	148,296	18.10%	127,266	17.80%
Salaries and Benefits	192,450	23.50%	169,028	23.64%
Depreciation	182,918	22.33%	162,687	22.76%
Insurance Expense	18,697	2.28%	18,322	2.56%
Repairs and Maintenance	22,600	2.76%	22,556	3.16%
General and Administrative	50,925	6.22%	50,146	7.02%
Interest Expense	180,883	22.08%	163,635	22.89%
Loss on Investments	21,190	2.59%	-	0.00%
Bad Debt Expense	<u>1,155</u>	<u>0.14%</u>	<u>1,221</u>	<u>0.17%</u>
Total Expenses	<u>819,114</u>	<u>100.00%</u>	<u>714,861</u>	<u>100.00%</u>
Increase in Net Position	<u>\$ 15,231</u>	<u>1.83%</u>	<u>\$ 193,233</u>	<u>21.28%</u>

As indicated above, net position increased by \$15,231 and \$193,233 for the years ended December 31, 2013 and 2012, respectively. This increase is due to the increase in water revenue as a result of extended water lines, increased customer base and increase in water usage rates.

REVENUES

Water sales in the amount of \$798,891 represents ninety-six percent (96%) of total District revenues. The District has relied mainly on water charges to customers to fund its operations.

EXPENSES

Major expenses include Water Expenses of \$148,296, Salaries and Benefits Expenses of \$192,450, Depreciation of \$182,918, General and Administrative Expense of \$50,925 and Interest on Long term Debt of \$180,883.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013 AND 2012

CAPITAL ASSETS

At December 31, 2013, the District had funds invested in net capital assets as follows:

CAPITAL ASSETS	
Land	\$ 17,477
Buildings	163,440
Property, Plant, and Equipment	8,811,246
Construction in Progress	<u>111,008</u>
Gross Capital Assets	9,103,171
Less: Accumulated Depreciation	<u>(1,753,931)</u>
Net Capital Assets	<u>\$ 7,349,240</u>

Purchases of fixed assets totaled \$315,966 and \$1,212,911, for the years ended December 31, 2013 and 2012, respectively. The 2012 purchases were primarily for waterline extensions included in the Phase IV addition.

DEBT

At the end of this year, the District had \$5,022,829 in Revenue Bonds outstanding. This is a combination of the Series 1995 Revenue Bonds, the 2007 Revenue Bonds, and the 2013 Revenue Bonds. All issuances were used in the construction of the water system. As part of these bond issuances three cash accounts were created whose use was limited as follows:

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose. The balance in this fund is \$30,349.

Waterworks Reserve Fund - The District is required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007, through June 20, 2008, the sum of \$771 must be deposited monthly. From July 20, 2008, to the acceptance of the Series 2013 Bonds, the sum of \$906 must be deposited monthly. From August 20, 2013, the date of acceptance for the Series 2013 Bonds, through July 20, 2014, the sum of \$1,093 must be deposited monthly. Beginning August 20, 2014, through April 20, 2035, \$1,191 must be deposited monthly until \$285,890 has been accumulated. The balance in the fund is \$105,523.

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007, through June 20, 2008, the sum of \$773 must be deposited monthly. From July 20, 2008, to the acceptance of the Series 2013 Bonds, the sum of \$906 must be deposited monthly. Beginning August 20, 2013, the date of acceptance for the Series 2013 Bonds, through July 20, 2014, \$1,093 must be deposited monthly. Beginning August 20, 2014, through April 30, 2035, \$1,191 must be deposited monthly until \$285,890 has been accumulated in the Waterworks Reserve Fund, then deposits increase to \$2,383 monthly. The balance in this fund is \$111,371.

Waterworks Short-lived Assets Fund - The District is required to deposit \$6,303 per month into this fund beginning August 20, 2013. Monies in this fund shall be used to pay for the maintenance and replacement of short lived assets of the system. The balance in this fund is \$327,684.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013 AND 2012

The District issued Series 2013 Revenue Bonds totaling \$1,390,739 during fiscal year ended December 31, 2013, which liquidated Bond Anticipation Notes R-1 and R-2 totaling \$1,258,355, which were issued during the fiscal year ended December 31, 2012. Retirements totaled \$1,316,765 and \$55,912 for the years ended December 31, 2013 and 2012, respectively.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact Southeast Waterworks District 2, 417 Trahan Street, Abbeville, LA 70510.



INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, a component unit of the Vermilion Parish Police Jury, State of Louisiana (The District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

OPINIONS

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of Southeast Waterworks District Number 2, as of December 31, 2013 and 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

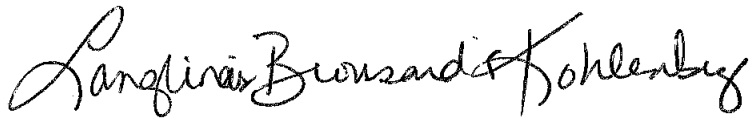
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules identified in the table of contents as supplemental information are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules identified in the table of contents as supplemental information is fairly stated in all material respects in relation to the financial statements as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, LA

June 30, 2014

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF NET POSITION

DECEMBER 31,

<u>ASSETS</u>		
	<u>2013</u>	<u>2012</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 289,794	\$ 599,315
Accounts Receivable	91,095	88,090
Other Receivable	13,523	1,931
Investments	<u>168,391</u>	<u>173,104</u>
Total Current Assets	<u>562,803</u>	<u>862,440</u>
ASSETS LIMITED AS TO USE		
Revenue Bond Sinking Cash	30,349	30,324
Waterworks Reserve Fund Cash	105,523	53,605
Waterworks Contingency Fund Cash	111,371	98,976
Customer Security Deposits Cash	25,485	22,883
Construction Account	5	37
Short-lived Assets	<u>327,684</u>	<u>-</u>
Total Assets Limited as to Use	<u>600,417</u>	<u>205,825</u>
CAPITAL ASSETS		
Land	17,477	17,477
Buildings	163,440	163,440
Property, Plant, and Equipment	8,811,246	7,473,767
Construction In Progress	<u>111,008</u>	<u>1,150,527</u>
Gross Capital Assets	9,103,171	8,805,211
Less: Accumulated Depreciation	<u>(1,753,931)</u>	<u>(1,589,019)</u>
Net Capital Assets	<u>7,349,240</u>	<u>7,216,192</u>
OTHER ASSETS		
Easements	10,760	10,760
Prepaid Expenses	11,448	5,547
Accrued Interest Receivable	<u>709</u>	<u>709</u>
Total Other Assets	<u>22,917</u>	<u>17,016</u>
TOTAL ASSETS	<u>\$ 8,535,377</u>	<u>\$ 8,301,473</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF NET POSITION

DECEMBER 31,

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 32,512	\$ 28,695
Payroll Liabilities	<u>5,177</u>	<u>4,330</u>
Total Current Liabilities	<u>37,689</u>	<u>33,025</u>
CURRENT LIABILITIES PAYABLE WITH ASSETS LIMITED TO USE		
Current Portion of Long-Term Debt	71,154	1,192,514
Accrued Interest Payable	21,818	8,176
Customer Security Deposits Liability	<u>20,100</u>	<u>17,950</u>
Total Current Liabilities, \$113,072 and \$84,528 payable with Assets Limited To Use for December 31, 2013 and 2012, respectively	<u>113,072</u>	<u>1,218,640</u>
LONG-TERM LIABILITIES		
Revenue Bonds Payable	<u>4,951,675</u>	<u>3,632,098</u>
Total Long-Term Liabilities	<u>4,951,675</u>	<u>3,632,098</u>
TOTAL LIABILITIES	<u>5,102,436</u>	<u>4,883,763</u>
NET POSITION		
Invested in Capital Assets, Net of Related Debt	2,326,411	2,391,580
Restricted (Expendable)	487,345	121,297
Unrestricted	<u>619,185</u>	<u>904,833</u>
TOTAL NET POSITION	<u>3,432,941</u>	<u>3,417,710</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 8,535,377</u>	<u>\$ 8,301,473</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION **FOR THE YEARS ENDED DECEMBER 31,**

	<u>2013</u>	<u>2012</u>
OPERATING REVENUES		
Water Sales	\$ 752,502	\$ 716,936
Meter Installation Charges	18,050	19,795
Disconnect Fees	11,300	9,800
Penalties	<u>17,039</u>	<u>16,624</u>
Total Operating Revenues	<u>798,891</u>	<u>763,155</u>
OPERATING EXPENSES		
Water Expenses	148,296	127,266
Salaries and Benefits	192,450	169,028
Depreciation	182,918	162,687
General and Administrative Expenses	50,925	50,146
Insurance Expense	18,697	18,322
Repairs and Maintenance	22,600	22,556
Bad Debt Expense	<u>1,155</u>	<u>1,221</u>
Total Operating Expenses	<u>617,041</u>	<u>551,226</u>
NET INCOME FROM OPERATIONS	<u>181,850</u>	<u>211,929</u>
NON-OPERATING INCOME (EXPENSES)		
Interest Income	9,464	15,501
Grant Income	21,948	-
Intergovernmental Income	-	108,900
Other Income	242	20,538
Gain (Loss) on Investments	(21,190)	-
Gain (Loss) on Sale of Equipment	3,800	-
Interest Expense	<u>(180,883)</u>	<u>(163,635)</u>
Total Non-Operating Income (Expense)	<u>(166,619)</u>	<u>(18,696)</u>
CHANGE IN NET POSITION	15,231	193,233
NET POSITION - BEGINNING	<u>3,417,710</u>	<u>3,224,477</u>
NET POSITION - ENDING	<u>\$ 3,432,941</u>	<u>\$ 3,417,710</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF CASH FLOWS

DECEMBER 31,

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING INCOME		
Receipts from Customers	\$ 798,036	\$ 757,329
Payments to Suppliers	(253,654)	(214,821)
Payments for Salaries and Benefits	(193,297)	(169,028)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>351,085</u>	<u>373,480</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Grant Income	9,548	-
Other Income	242	20,538
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>9,790</u>	<u>20,538</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Grant Income	12,400	-
Purchases of Fixed Assets	(315,966)	(1,212,911)
Proceeds from the Sale of Fixed Assets	3,800	-
Proceeds from Long-Term Debt	1,514,982	1,134,112
Principal Payments - Revenue Bonds	(1,316,765)	(55,912)
Interest Paid	(167,241)	(163,760)
NET CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(268,790)</u>	<u>(298,471)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	9,464	15,477
Proceeds from the Sale of Investments	-	100,000
Purchases of Investments	(169,505)	-
NET CASH FLOWS PROVIDED BY INVESTING ACTIVITIES	<u>(160,041)</u>	<u>115,477</u>
NET INCREASE IN CASH AND EQUIVALENTS	<u>(67,956)</u>	<u>211,024</u>
CASH AND EQUIVALENTS - BEGINNING (Including Restricted Cash of \$205,825 and \$246,775 for 2013 and 2012 respectively)	<u>805,140</u>	<u>594,116</u>
CASH AND EQUIVALENTS - ENDING (Including Restricted Cash of \$447,389 and \$205,825 for 2013 and 2012 respectively)	<u>\$ 737,184</u>	<u>\$ 805,140</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

STATEMENTS OF CASH FLOWS

DECEMBER 31,

	<u>2013</u>	<u>2012</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING INCOME:		
Operating Income	\$ 181,850	\$ 211,929
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH FLOWS FROM OPERATING INCOME:		
Depreciation	182,918	162,687
Bad Debt Expense	1,155	1,221
Increase in Accounts Receivable	(4,158)	(7,297)
Increase in Other Receivable	(11,592)	(1,931)
Increase in Easements	-	(10,760)
Increase in Prepaid Expenses	(5,901)	(585)
Increase (Decrease) in Accounts Payable	3,816	17,435
Increase (Decrease) in Other Current Liabilities	847	531
Increase in Customer Security Deposits	<u>2,150</u>	<u>250</u>
Total Adjustments	<u>169,235</u>	<u>161,551</u>
NET CASH FLOWS FROM OPERATING INCOME	<u>\$ 351,085</u>	<u>\$ 373,480</u>

The accompanying notes are an integral part of these financial statements.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southeast Waterworks District Number 2, of the parish of Vermilion, State of Louisiana (the District), which is a component unit of the Vermilion Parish Police Jury, was created under the provisions of Louisiana Revised Statutes (LRS) 33:3811, for the purpose of providing water to rural areas of Vermilion Parish. The District is governed by a board of commissioners composed of five members appointed by the Vermilion Parish Police Jury. The Vermilion Parish Police Jury exercises oversight responsibility with the District; however, the Police Jury does not exercise any control over specific expenditures of the District.

All activities over which the District exercises oversight responsibility have been incorporated to form the District's reporting entity. Oversight responsibility is determined by financial interdependency, selection of governing board, designation of management, accountability for financial matters, and an ability to significantly influence operations.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The District's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As a Proprietary Fund, the District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's proprietary fund are charges to customers related to the sale of water. The District also recognizes as operating revenue fees related to connecting and disconnecting service to customers. Operating expenses for the District's proprietary fund include water expenses, general and administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the District in the financial statements to the extent that those standards do no conflict with or contradict guidance of the GASB.

DEPOSITS AND INVESTMENTS

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in obligations of the U.S. Treasury, certificates of deposit of state banks organized under the laws of Louisiana and national banks having the principal office in the State of Louisiana.

Investments in debt and equity securities are carried at fair value except for investments in debt securities with maturities of less than one year at the time of purchase. These investments are reported at amortized cost, which approximates fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating income when earned.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RECEIVABLES AND CUSTOMERS

The District accounts for bad debts using the allowance method. Expense is recognized during the period in which a specific account is determined to be uncollectible and an allowance for doubtful accounts decreases the net receivable amount.

At December 31, 2013, the District had 2,184 customers connected for service. Of that total, 2,113 were residential customers and 71 were commercial customers.

The following represents the aged receivable balances at December 31, 2013 and 2012:

	<u>Number of Accounts</u>	<u>2013</u>	<u>Number of Accounts</u>	<u>2012</u>
Unbilled		\$ 32,269		\$ 31,726
0 - 30 days	1,991	51,995	1,878	49,486
31 - 60 days	187	5,800	231	6,061
61 - 90 days	<u>6</u>	<u>1,031</u>	<u>15</u>	<u>817</u>
Total Number of Accounts/Receivable	<u>2,184</u>	<u>\$ 91,095</u>	<u>2,124</u>	<u>\$ 88,090</u>

The District enforces a strict cut-off policy for delinquent accounts. The District wrote off accounts that were aged over ninety days and restated 2012 numbers to reflect the balances written off, which had no effect on net accounts receivable presented. There are 262 and 251 inactive accounts as of December 31, 2013 and 2012, respectively, for which the District keeps balances on record only in order to recover bad debts should the customers return as residents to the District; these balances have been written off.

ASSETS LIMITED AS TO USE

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets because their use is limited by applicable bond covenants. The "Revenue Bond Sinking Fund" is used to accumulate resources necessary to meet annual debt service requirements. The "Waterworks Reserve Fund" is used to segregate from funds available for operations, funds equal to five percent of the original bond issuance. These funds serve to prevent the District from defaulting on debt service payments in the event of deficiencies in utility operations. The "Waterworks contingency Fund" is used to accumulate resources to meet any unexpected contingencies or to fund significant asset replacement or repairs. The "Customer Security Deposits" represents advance deposits received from water customers which shall be either refunded upon termination of services or applied toward billings in arrears. The "Short-lived Assets Fund" is used to pay for the maintenance and replacement of short lived assets of the system.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS AND LONG-TERM LIABILITIES

The accounting and reporting treatment applied to capital assets and long-term liabilities are determined by its measurement focus. Property, plant, and equipment in the Proprietary Fund of the District are recorded at cost. Property, plant and equipment donated to these Proprietary Fund operations are recorded at their estimated fair value at the date of donation.

Property, plant, and equipment are depreciated in the Proprietary Fund using the straight line method over the following estimated useful lives:

	<u>Years</u>
Buildings	50
Utility System Improvements	25 - 50
Equipment	5 - 10

Long-term debt and other obligations of the Proprietary Fund of the District are reported as liabilities. For the Proprietary Fund, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payables are reported net of the applicable bond premium or discount. Issuance costs are reported as other assets.

NET POSITION

In accordance with GASB Codification section P80, Net Position classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of net position that do not meet the definition of "restricted" or "invested in capital assets, net of related debt", above.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, the unrestricted resources as they are needed.

USE OF ESTIMATES

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement, as well as revenues and expenses reported for the periods presented. The District regularly assesses these estimates and, while actual results may differ, management believes that the estimates are reasonable.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

VACATION AND SICK LEAVE

Employees of the District are entitled to a one week vacation after a six month probationary period, and a two week vacation after two years of employment. The earned days do not vest; therefore, no liability has been recorded for compensated absences in the financial statements.

RECLASSIFICATION

To be consistent with current year classifications, some items from the previous year have been reclassified with no effect on net position.

GRANTS AND DONATIONS

Grants and donations (including capital contributions of assets) are recognized as revenue when all eligibility requirements, including time requirements, imposed by the provider have been met.

INCOME TAXES

The District is a political subdivision and exempt from taxes.

ADVERTISING

The District expenses advertising costs as incurred.

NOTE 2: CASH AND INVESTMENTS

At year end, the District's carrying amount of deposits was \$724,062 and the bank balance was \$737,184. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining balance was collateralized with securities held by the pledging financial institution's trust department or agent in the financial institution's name. For the purpose of the Statement of Cash Flows, the District considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

The District's investments generally are reported at fair value. In accordance with Accounting Standards Codification (ASC) 820, the District groups assets and financial liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange. Level 1 also includes securities that are traded by dealers or brokers in active markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. For example, municipal securities valuations are based on markets that are currently offering similar financial products. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Level 3 - Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models, and similar techniques, and not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets or liabilities.

Below is a table that presents information about investments, which are measured at fair value on a recurring basis:

		<u>Investments</u>			
		Quoted Prices in Active Markets for Identical Assets/Liabil ities			
		Significant Other Observable Inputs			
		Significant Unobservable Inputs			
For the year ended December 31, 2013		Fair Value	Level 1	Level 2	Level 3
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006 -B Moody's A3/S&P A-		\$ 37,975	\$ 37,975	\$ -	\$ -
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-C-1 Moody's A3/S&P AA-		130,416	130,416	-	-
Total Investments		\$ 168,391	\$ 168,391	\$ -	\$ -
		Quoted Prices in Active Markets for Identical Assets/ Liabilities			
		Significant Other Observable Inputs			
		Significant Unobservable Inputs			
For the year ended December 31, 2012		Fair Value	Level 1	Level 2	Level 3
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006 -B Moody's A3/S&P A-		\$ 39,030	\$ 39,030	\$ -	\$ -
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-C-1 Moody's AA3/S&P AA-		134,074	134,074	-	-
Total Investments		\$ 173,104	\$ 173,104	\$ -	\$ -

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments Limited as to Use

<u>For the year ended December 31, 2013</u>	<u>Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities Level 1</u>	<u>Significant Other Observable Inputs Level 2</u>	<u>Significant Unobservable Inputs Level 3</u>
New Jersey Economic Dev Authority State Pension Funding Revenue Bonds Series 1997 Moody's A1/S&P AA-	\$ 133,459	\$ 133,459	\$ -	\$ -
New Jersey Economic Dev Authority State Pension Funding Revenue Bonds Series 1997 Moody's A1/S&P AA-	19,569	19,569	-	-
Total Investments in Short-Lived Assets, Limited to Use	<u>\$ 153,028</u>	<u>\$ 153,028</u>	<u>-</u>	<u>-</u>

There were no investments limited to use as of December 31, 2012.

The Unrealized Gains and Losses on Investments due to market value fluctuations at December 31, 2013 is as follows:

			Unrealized Gain (Loss) Since Inception	Unrealized Gain(Loss) Current Yr.
	<u>Fair Value</u>	<u>Cost Basis</u>		
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006 -B Moody's A3/S&P A-	\$ 37,975	\$ 34,931	\$ 3,044	\$ (1,055)
Louisiana State Citizens Property Insurance Corporate Assessment Revenue Bonds Series 2006-C-1 Moody's A3/S&P AA-	130,416	118,589	11,827	(3,658)
New Jersey Economic Dev Authority State Pension Funding Revenue Bonds Series 1997 Moody's A1/S&P AA-	133,459	147,821	(14,362)	(14,362)
New Jersey Economic Dev Authority State Pension Funding Revenue Bonds Series 1997 Moody's A1/S&P AA-	19,569	21,684	(2,115)	(2,115)
	<u>\$ 321,419</u>	<u>\$ 323,025</u>	<u>\$ 1,606</u>	<u>\$ (21,190)</u>

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 3: CASH AND CASH EQUIVALENTS - CASH FLOWS

Cash and cash equivalents on the Statement of Cash Flows consist of the following items:

	<u>2013</u>	<u>2012</u>
Cash and Cash Equivalents	\$ 289,795	\$ 599,315
Revenue Bond Sinking Cash	30,349	30,324
Waterworks Reserve Fund Cash	105,523	53,605
Waterworks Contingency Fund Cash	111,371	98,976
Customer Security Deposits Cash	25,485	22,883
Construction Account	5	37
Short-Lived Assets - Cash	<u>174,656</u>	<u>-</u>
Total Cash and Cash Equivalents - Cash Flows	<u>\$ 737,184</u>	<u>\$ 805,140</u>

NOTE 4: CAPITAL ASSETS

Capital Assets, by major category, is as follows at December 31, 2013 and 2012:

	<u>ASSET LIFE</u>				
	<u>IN YEARS</u>	<u>12/31/2012</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>12/31/2013</u>
Land		\$ 17,477	\$ -	\$ -	\$ 17,477
Buildings	50	163,440	-	-	163,440
Property, Plant and Equipment	5-50	7,473,767	1,355,485	(18,006)	8,811,246
Construction in Progress		<u>1,150,527</u>	<u>245,885</u>	<u>(1,285,404)</u>	<u>111,008</u>
Gross Capital Assets		8,805,211	1,601,370	(1,303,410)	9,103,171
Less: Accumulated Depreciation		<u>(1,589,019)</u>	<u>(182,918)</u>	<u>18,006</u>	<u>(1,753,931)</u>
Net Capital Assets		<u>\$ 7,216,192</u>	<u>\$ 1,418,452</u>	<u>\$ (1,285,404)</u>	<u>\$ 7,349,240</u>

NOTE 5: LONG-TERM DEBT

The District issues revenue bonds which it pledges income derived from the water system to pay the debt. Revenue bonds outstanding at year end are as follows:

	<u>2013</u>	<u>2012</u>
1) Utility Revenue Bonds dated May 12, 1995; payable in monthly installments of \$3,644 through March 12, 2035; including interest at 4.5%	\$ 597,429	\$ 613,876
2) Utility Revenue Bonds dated March 16, 1998; payable in monthly installments of \$1,554 through March 12, 2038; including interest of 4.875%	266,589	272,089
3) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$1,012 beginning August 12, 2008 through July 12, 2047 at 4.25%	216,901	219,758
4) Utility Revenue Bonds dated July 20, 2007; payable in monthly installments of \$11,900 beginning August 12, 2008 through July 12, 2047 at 4.25% Interest only payment of \$112,906 was due July 12, 2008	2,551,171	2,584,777

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5: LONG-TERM DEBT (CONTINUED)

5) Bond Anticipation Note numbered R1 dated June 15, 2012; payable in one installment on December 15, 2013 including interest at 1.428%	-	807,112
6) Bond Anticipation Note numbered R2 dated June 15, 2012; payable in one installment on December 15, 2013 at 0%	-	327,000
7) Utility Revenue Bonds dated August 12, 2013; payable in monthly installments of \$5,714 beginning September 12, 2014 including interest at 2.75%	1,390,739	-
Total Bonds	<u>5,022,829</u>	<u>4,824,612</u>
Less: Current Portion	<u>(71,154)</u>	<u>(1,192,514)</u>
Total Long-term Debt	<u>\$ 4,951,675</u>	<u>\$ 3,632,098</u>

Annual debt service requirements to maturity for revenue bonds are as follows:

<u>Year Ended December 31,</u>	<u>Total Debt Service</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 284,946	\$ 71,154	\$ 213,792
2015	285,890	94,729	191,161
2016	285,890	98,440	187,450
2017	285,890	102,304	183,586
2018	285,890	106,325	179,565
2019-2023	1,429,452	597,956	831,496
2024-2028	1,429,452	726,384	703,068
2029-2033	1,429,452	883,661	545,791
2034-2038	1,256,539	889,102	367,437
2039-2043	1,117,574	915,752	201,822
2044-2047	<u>577,845</u>	<u>537,022</u>	<u>40,823</u>
Total Debt Service to Maturity	<u>\$ 8,668,820</u>	<u>\$ 5,022,829</u>	<u>\$ 3,645,991</u>

Long-term debt activity for the year ended December 31, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Long-term Debt	<u>\$ 4,824,612</u>	<u>\$ 1,514,982</u>	<u>\$ (1,316,765)</u>	<u>\$ 5,022,829</u>

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 5: LONG-TERM DEBT (CONTINUED)

Portion of Long-Term Debt due within one year:	<u>2013</u>	<u>2012</u>
Utility Revenue Bonds - 1995	\$ 17,200	\$ 16,445
Utility Revenue Bonds - 1998	5,773	5,499
Utility Revenue Bonds - 2007	2,981	2,857
Utility Revenue Bonds - 2007	35,058	33,601
Bond Anticipation Note - R1	-	807,112
Bond Anticipation Note - R2	-	327,000
Utility Revenue Bonds - 2013	<u>10,142</u>	<u>-</u>
Total Portion of Long-Term Debt due within one year	<u>\$ 71,154</u>	<u>\$ 1,192,514</u>

Current Liabilities Payable with Assets Limited to Use	<u>2013</u>	<u>2012</u>
Accrued Interest Payable	\$ 21,818	\$ 8,176
Current Portion of Long-Term Debt	71,154	58,402
Customer Security Deposits Liability	<u>20,100</u>	<u>17,950</u>
Total Current Liabilities Payable with Assets Limited to Use	<u>\$ 113,072</u>	<u>\$ 84,528</u>

NOTE 6: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES

Under the terms of the bond indenture on the outstanding revenue bonds, all income and revenues of every nature, earned or derived from operations of the water utility system are pledged and dedicated to the retirement of said bonds and are to be set aside into the following special funds.

Waterworks Revenue Bond and Interest Sinking Fund - An amount sufficient to accumulate the amount needed to assure the prompt payment of the principal and interest installments as they become due is required to be set aside into this fund and may be used only for such purpose.

Waterworks Reserve Fund - The District is required to set aside \$260 monthly into this fund, beginning June 1997, until the sum of \$62,376 has been accumulated. From July 20, 2007, through June 20, 2008, the sum of \$771 must be deposited monthly. From July 20, 2008, to the acceptance of the Series 2013 Bonds, the sum of \$906 must be deposited monthly. From August 20, 2013, the date of acceptance for the Series 2013 Bonds, through July 20, 2014, the sum of \$1,093 must be deposited monthly. Beginning August 20, 2014, through April 20, 2035, \$1,191 must be deposited monthly until \$285,890 has been accumulated.

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 6: FLOW OF FUNDS - RESTRICTIONS ON USE OF UTILITY REVENUES (CONTINUED)

Waterworks Depreciation and Contingency Fund - The District is required to deposit \$262 per month into this fund beginning June 1997. Monies in this fund shall be used to pay for major repairs due to damage caused by unforeseen catastrophes and for replacements made necessary by the depreciation of the system. From July 20, 2007, through June 20, 2008, the sum of \$773 must be deposited monthly. From July 20, 2008, to the acceptance of the Series 2013 Bonds, the sum of \$908 must be deposited monthly. Beginning August 20, 2013, the date of acceptance for the Series 2013 Bonds, through July 20, 2014, \$1,093 must be deposited monthly. Beginning August 20, 2014, through April 30, 2035, \$1,191 must be deposited monthly until \$285,890 has been accumulated in the Waterworks Reserve Fund, then deposits increase to \$2,383 monthly.

Waterworks Short-lived Assets Fund- The District is required to deposit \$6,303 per month into this fund beginning August 20, 2013. Monies in this fund shall be used to pay for the maintenance and replacement of short lived assets of the system.

The District issued Series 2013 Revenue Bonds totaling \$1,390,739 during fiscal year ended December 31, 2013, which liquidated Bond Anticipation Notes R-1 and R-2 totaling \$1,258,356, which were issued during the fiscal year ended December 31, 2012. Retirements totaled \$1,316,765 and \$55,912 for the years ended December 31, 2013 and 2012, respectively.

All revenues received in any year, and not required to be paid into any of the aforementioned funds, are regarded as surplus and may be used for any lawful purposes.

Assets Limited to Use are as follows:

	2013	2012
Revenue Bond Sinking Fund	\$ (62,624)	\$ (36,254)
Waterworks Reserve Fund	105,523	53,605
Waterworks Contingency Fund	111,371	98,976
Customer Security Deposits	5,386	4,933
Construction Account	5	37
Short-lived Assets	<u>327,684</u>	<u>-</u>
Total	<u>\$ 487,345</u>	<u>\$ 121,297</u>
Short-lived Assets include:		
Cash	\$ 174,656	\$ -
Investments	<u>153,028</u>	<u>-</u>
	<u>327,684</u>	<u>-</u>

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 7: DIRECTORS' FEES

The following is a schedule of directors' fees paid by the District for the year ended December 31,

	<u>Term</u>	<u>2013</u>	<u>2012</u>
Curnal Cessac, Chairman 225 Emile Street, Abbeville 337-893-0630	03/05/2011 - 03/05/2016	\$ 1,275	\$ 1,125
Clint Dugas 4921 Morgan Road, Erath 337-937-8457	04/17/2010 - 04/17/2015	1,275	1,125
Nally Simon 2006 Lucie Street, Abbeville 337-893-4355	01/14/2013 - 03/07/2018	1,350	1,125
Susan Wilhelm 16421 Detraz Road, Abbeville 337-893-4148	08/18/2013 - 08/18/2018	525	675
Byron Perry 414 Maple Street, Abbeville 337-893-3656	08/04/2013 - 07/06/2018	525	375
Pervis Meaux 303 Emile Street, Abbeville 337-893-5073	07/06/2011 - 02/24/2015	<u>1,125</u>	<u>750</u>
Total		<u>\$ 6,075</u>	<u>\$ 5,175</u>

NOTE 8: INSURANCE IN FORCE

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The following is a schedule of insurance in force at December 31, 2013:

<u>DESCRIPTION OF COVERAGE</u>	<u>EXPIRATION DATES</u>	<u>COVERAGE AMOUNTS</u>
Worker's Compensation	07/01/2014	Statutory
Surety Bonds:		
Board President	10/03/2014	\$ 310,000
Vice-President	10/03/2014	\$ 310,000
Secretary	10/03/2014	\$ 310,000
Office Manager	10/03/2014	\$ 310,000
Plant Manager	10/03/2014	\$ 310,000
Office Secretary	10/03/2014	\$ 310,000
Automobile Liability (Each Accident)	05/26/2014	\$ 1,000,000
General Premises Liability (Each Occurrence)	05/26/2014	\$ 1,000,000
General Premises Liability (General Aggregate)	01/20/2014	\$ 3,000,000
Blanket Building and Contents	05/26/2014	\$ 1,379,683
Flood - Building	05/26/2014	\$ 367,400
Flood - Contents	05/26/2014	\$ 500,000

**SOUTHEAST WATER DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 9: WATER RATES

The following represents water rates in force at December 31, 2013:

<u>Residential</u>		
First 2,000 Gallons	\$	14.00
All Over 2,000 Gallons Per 1,000 Gallons	\$	3.75
<u>Commercial</u>		
First 2,000 Gallons	\$	19.00
All Over 2,000 Gallons Per 1,000 Gallons	\$	3.75
<u>Penalty</u>		
10% of Water Charge Paid After Due Date		

NOTE 10: DEFINED CONTRIBUTION RETIREMENT PLAN

All full-time employees participate in a defined contribution plan after six months of service. The District contributes 7.5 percent (7.50%) of each participant's gross pay. All amounts are vested immediately. The plan was no set-up to allow employee contributions to the plan. The covered payroll for the plan was \$146,051 and \$107,395 for 2013 and 2012, respectively. The District's total payroll for the same periods was \$154,018 and \$133,290 for 2013 and 2012, respectively. Total contributions for the year ended December 31, 2013 and 2012, were \$11,107 and \$9,022, respectively.

NOTE 11: CONSTRUCTION COMMITMENTS

The District entered into a construction contract during the fiscal year, which includes the Additional Roads in the Phase IV project water line extension. As of December 31, 2013, the District had outstanding construction contracts totaling \$207,407 that are being financed by Series 2013 Bonds.

NOTE 12: PRIOR PERIOD ADJUSTMENTS

The Governmental Accounting Standards Board (GASB) recently issued *GASBS 65-Items Previously Reported as Assets and Liabilities*. These provisions are effective for financial statements for the periods beginning after December 15, 2012. GASB 65 changes the way debt issuance costs are reported - from amortizing over the life of the bond, to expensing in the period incurred. This change in the accounting treatment of debt issuance costs has resulted in a prior period adjustment to the beginning net position for the year ended December 31, 2012. As a result of the restatement, net bond issue costs have decreased by \$14,678, amortization expense decreased by \$622 and unrestricted net position has decreased by \$14,678. The cumulative effect in the change of net position as of the beginning of December 31, 2012 as a result of this adjustment is a decrease in net position of \$15,300.

NOTE 13: SUBSEQUENT EVENTS

On June 12, 2014, the board approved a rate increase for bulk water sales from \$3.00 to \$6.00 per 1,000 gallons after the first 1,000 gallons used.

Management has evaluated subsequent events through the date that the financial statements were available to be issued, June 30, 2014.

**SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA**

SCHEDULE OF EXPENSES

DECEMBER 31,

	<u>2013</u>	<u>2012</u>
WATER EXPENSES		
Chemicals	\$ 59,439	\$ 52,581
Engineering Fees	2,693	1,557
Meter Readers	25,794	25,354
Line Location and Testing	8,408	7,460
Supplies	17,093	11,341
Utilities	<u>34,869</u>	<u>28,973</u>
 Total Water Expenses	 <u>\$ 148,296</u>	 <u>\$ 127,266</u>
 GENERAL AND ADMINISTRATIVE EXPENSES		
Advertising	\$ 2,193	\$ 2,634
Fuel Expenses	7,668	7,147
Bank Charges	875	755
Finance Charge - Credit and Debit Cards	1,140	935
Freight	1,008	1,180
Legal, Auditing and Accounting	12,912	7,828
Office	8,330	10,111
Operations	1,024	2,171
Postage	8,228	8,816
Printing	1,464	844
School and Training	1,588	2,755
Telephone & Cellular	<u>4,495</u>	<u>4,970</u>
 Total General and Administrative Expenses	 <u>\$ 50,925</u>	 <u>\$ 50,146</u>



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Commissioners
Southeast Waterworks District Number 2
of the Parish of Vermilion, State of Louisiana
Abbeville, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of Southeast Waterworks District Number 2 of the Parish of Vermilion, State of Louisiana, a component unit of the Vermilion Parish Police Jury, State of Louisiana (the District), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated June 30, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we identified findings which are described in the accompanying "Schedule of Findings and Questioned Costs and Management's Corrective Action Plan". We consider all findings to be significant deficiencies material weaknesses.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended for the information and use of the Board of Commissioners and management of the District, others within the organization, federal awarding agencies, and the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than those specified parties.



LANGLINAIS BROUSSARD & KOHLENBERG
(A Corporation of Certified Public Accountants)
Abbeville, LA

June 30, 2014

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013

We have audited the financial statements of Southeast Waterworks District Number 2, a component unit of the Vermilion Parish Police Jury, State of Louisiana (The District), as of and for the years ended December 31, 2013 and 2012, and have issued our report thereon dated June 30, 2014.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our audits of the financial statements as of December 31, 2013 and 2012 resulted in unmodified opinions.

Section 1: Summary of Auditor's Results

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses:	Yes
Significant Deficiencies:	Yes

Compliance	
Compliance Material to Financial Statements	No

Section II: Financial Statement Findings

None.

B- Significant Deficiencies and Material Weaknesses

Finding 2013-1 Financial Statement Preparation

Condition: The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: This condition represents a material weakness in the District's internal control system.

Recommendation: The District should continue to outsource the preparation of its financials to its independent auditors and carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their contents and presentation.

Management Response: The Board of Commissioners has decided that it is not cost effective to hire someone who is qualified to prepare financial statements. The board and management will continue to review the financials before accepting them.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND MANAGEMENT'S CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2013-2 Segregation of Duties

Condition: The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: Failure to adequately segregate accounting and financial functions increases the risk that errors and irregularities including fraud may occur and not be prevented or detected.

Recommendation: The authorization, recording, and reconciliation of transactions and decisions and the custody of assets related to those transactions should be segregated. The District should segregate these duties amongst employees and/or mitigate lack of segregation with increased management oversight.

Management Response: Due to the small number of employees employed by the Water District, the Board of Commissioners has decided that the duties cannot be segregated any more than they are at present. The Board thinks that it is cost prohibitive for the Water District to hire more employees so that duties can be segregated. The board continues to closely monitor activities that are not segregated.

Finding 2013-3 Proposed Audit Adjustments

Condition: There are excessive audit adjustments that were proposed. These audit adjustments are material to the financial statements.

Criteria: To ensure good internal controls and best practices for governmental entities.

Effect: The District's management has approved and posted all proposed audit adjustments.

Recommendation: The District should monitor the general ledger to the extent of the abilities of its accounting staff.

Management Response: The Water District will make it a policy that adjustments are posted to the general ledger in a more timely fashion and the Board of Commissioners will monitor it more closely.

SECTION III: Management Letter Items

There are no management letter items at December 31, 2013.

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2013

Section I: Internal Control and Compliance Material to the Financial Statements

Finding 2012-1 Audit Deadline

Condition: The District did not meet the six month deadline for filing the audit report with the Legislative Auditor of the State of Louisiana.

Resolved.

Finding 2012-2 Bond Covenants

Condition: The District's reserve fund for the Utility Revenue Bonds was reduced to an amount below the cumulative required restricted balance.

Resolved.

Finding 2012-3 Policies and Procedures

Condition: The District did not properly document the authorization of changes in the benefit policies for new employees nor did they document the authorization of pay raises for certain employees.

Resolved.

Finding 2012-4 Financial Statement Preparation

Condition: The District relies on its outside auditors to assist in the preparation of external financial statements and related disclosures. Under U.S. generally accepted auditing standards, outside auditors cannot be considered part of the District's internal control structure, and because of the limitations of the District's small accounting staff, the design of the District's internal control structure does not otherwise include procedures to prevent or detect a material misstatement in the external financial statements.

Unresolved. See Finding 2013-1

Finding 2012-5 Segregation of Duties

Condition: The District does not segregate the authorization, recording, and reconciliation of transactions and the custody of assets related to those transactions.

Unresolved. See Finding 2013-2

SOUTHEAST WATERWORKS DISTRICT NUMBER 2
OF THE PARISH OF VERMILION, STATE OF LOUISIANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2013

Finding 2012-6 Journal Entries

Condition: There are excessive audit adjustments that were proposed. These audit adjustments are material to the financial statements.

Unresolved. See Finding 2013-3

Finding 2012-7 Accounting System

Condition: The accounts receivable aging was calculated erroneously by the accounting software, which led to an error in management's estimate for the allowance for doubtful accounts for prior periods. As a result, a prior period adjustment was made to the financial statements. In addition, the accounting software produced a general ledger that was out of balance.

Resolved.